



HELPING YOU
SECURE A
BETTER
TOMORROW

Kentucky Deferred Compensation

**Increase Your
Retirement Benefits
While You Reduce
Your Current
Income Taxes**

**The Kentucky Public Employees'
Deferred Compensation Authority**

105 Sea Hero Road, Suite 1
Frankfort, KY 40601-8862

Plan Summary - Highlights

The Kentucky Public Employees' Deferred Compensation Authority - offering two voluntary supplemental retirement plans sponsored by the Commonwealth of Kentucky for state and local governments, public school and university employees.

www.kentuckydcp.com
800.542.2667

Rev. 01/04

Why should you join the Authority's Deferred Compensation Program?

The Kentucky Public Employees' Deferred Compensation Authority (Authority) provides supplemental retirement coverage to thousands of public employees in Kentucky. Why? Consider these benefits:

- ✓ You need a long-term investment savings plan to meet your retirement goals. Chances are, Social Security benefits, plus your state or other system retirement plan, will not provide enough income to maintain your current standard of living. The Authority lets you supplement your retirement with your own voluntary savings and investment plan.
- ✓ It is convenient. You can invest the easy way . . . through payroll deduction.
- ✓ Tax deferral means your investments have the opportunity to grow faster. You pay no federal or state taxes on the portion of your income you contribute to the Plan(s), or on any of your investment earnings, until the money is paid out to you.
- ✓ You may also pay lower taxes when you receive your distributions. First, you may be in a lower tax bracket after you retire. Second, under Kentucky House Bill No. 1, a significant portion of your

Deferred Compensation distributions at retirement may be excludable from Kentucky state income tax.

- ✓ You may select from a large number of high quality, well known investment options. Through the Authority, you can invest in some of the best-known mutual funds available on a no-load basis.*
- ✓ It is easy to make changes: Over the Web at www.kentuckydcp.com, or with SAVER, our telephone voice response system. SAVER allows you to check on your account balance, move money between funds,** and more – any time of the day or night (except for brief backup periods). Call SAVER toll-free at 800.793.4401. You may also make changes by contacting the Authority office in Frankfort, toll free at 800.542.2667.
- ✓ Your Social Security and retirement benefits are not affected by your contributions under the Authority's Plan(s).

* Fund management fees still apply. Please request a prospectus for more complete information.

** Certain excessive trading restrictions may apply.

How does Deferred Compensation work for you?

The following is an example of how tax-deferred retirement investing can have a positive impact on your monthly income. In this example, we have assumed a salary of \$24,000.

	Pre-tax With DC	After-tax Without DC
Your gross paycheck (24 pays)	\$1,000	\$1,000
Pre-Tax DC Deferral	\$ 125	-----
Taxable Income	\$ 875	\$1,000
Federal & State Taxes*	\$ 150	\$ 170
(includes Medicare and Social Security)		
After-Tax deduction	-----	\$ 125
Discretionary Income	\$ 725	\$ 705
*Assumes 2003-04 tax rates for a married Kentucky taxpayer with no children, filing jointly, using standard deduction.		

In this example, an employee saves \$20 in taxes each paycheck – or \$480 annually – by investing through Deferred Compensation instead of investing in an account which is not tax-deferred. This translates into more money that can work for your retirement or other savings goals.

You also pay no current taxes on the interest or earnings in your account. Earnings compound without taxation, allowing a potentially greater savings accumulation over time.

Why should I participate in the Authority Program now?

There are two important factors which may help your Deferred Compensation account grow – time and compounding. This hypothetical example illustrates the value of joining early.

Building Your Nest Egg - A Tale of Twin Sisters

One sister started investing in her Authority program at age 30, invested \$2,000 each year for 10 years until she was 40, and then stopped investing completely. The second sister waited until she turned 40 to begin investing in her Authority program. She invested \$2,000 each year until she was age 65 – 15 years longer than her sister invested.

Assuming they both earned 8% annually on their

investment, which sister do you think accumulated the larger account balance at age 65?

If you guessed the first sister, the one who began investing earlier, you are correct. She invested only \$20,000 over a period of 10 years, but her account grew to about \$206,000* by retirement. Her sister, who invested a total of \$50,000 over a period of 25 years, ended up with less than \$152,000*. What made the difference? The power of time and compounding.

*This illustration is a hypothetical compounding calculation assuming an 8% annual rate of return. It is not intended to serve as a projection or prediction of the investment results of any specific investment. Investments are not guaranteed. Depending on your underlying investments, your return may be higher or lower. Interest compounded annually based on mid-year contributions. No taxes or fees are reflected in this example. Source: Nationwide Financial, 2001.

What plans are available through the Authority?

Plan I (offered since 1975) is a deferred compensation plan for Kentucky State Government, schools and universities, and local governments authorized by Section 457 of the United States Internal Revenue Code.

Plan II (offered since 1986) is a cash or deferral arrangement authorized under Section 401(k) of the United States Internal Revenue Code. This plan is available to the same entities as Plan I.

Both Plans offer you:

- Income sheltering by IRS approved pre-tax deferrals.
- Easy investing through payroll reductions.
- Diversified investment options and the ease of daily exchanges among them with no exchange fee.
- Several benefit payment options.
- Flexibility in changing future deferrals.
- Ability to transfer assets from prior plans into the respective Plan offered by the Authority.

Plan I Features (457)	Plan II Features (401(k))
<ul style="list-style-type: none"> • Generally, you may defer up to 100% of your includible compensation, after deducting contributions to the state retirement plan(s). You must, however, also allow for the withholding of FICA, local, and similar taxes which do not recognize pre-tax contributions. There is an annual dollar limit of \$13,000.* • Deferrals and earnings are put in trust in your name immediately after clearing the State Treasury and upon completion of the investment process. • A "catch-up" provision (up to twice the annual maximum in deferrals per year) is available in the three calendar years prior to your planned normal retirement age. A separate "Baby Boomer" catch-up may be available for participants age 50 and over. • Benefits must begin by April 1 of the calendar year after the later of: the calendar year in which your employment ends, or the calendar year in which you reach age 70 1/2. • There is no penalty tax for early (before age 55) distributions upon termination of employment. • "Rollovers" are permitted** to a 401(a), 401(k), 403(b) Plan or IRA, and assets may be "transferred" to or from another 457 Plan. 457 Plan assets may be transferred to KERS/KTRS Judicial and Legislative Retirement Systems to purchase service credits. • Loan provisions and eligible financial hardship withdrawals are available. The minimum loan amount is \$1,000. The maximum loan amount is 50% of your eligible account balance (not to exceed \$50,000 for all outstanding loans). 	<ul style="list-style-type: none"> • Generally, you may defer up to 100% of your includible compensation, after deducting contributions to the state retirement plan(s). You must, however, allow for the withholding of FICA, local, and similar taxes which do not recognize pre-tax contributions. There is an annual dollar limit of \$13,000.* • Deferrals and earnings are put in trust in your name immediately after clearing the State Treasury and upon completion of the investment process. • A "Baby Boomer" catch-up provision is available on January first of the year you turn age 50. • Loan provisions and eligible financial hardship withdrawals are available. The minimum loan amount is \$1,000. The maximum loan amount is 50% of your eligible account balance (not to exceed \$50,000 for all outstanding loans). • Benefits must begin by April 1 of the calendar year after the later of: the calendar year in which your employment ends, or the calendar year in which you reach age 70 1/2. • May be eligible for favorable tax treatment of lump-sum distributions. • "Rollovers" are permitted to a 401(a), 401(k), 457, 403(b) Plan or IRA. 401(k) Plan assets may be transferred to KERS/KTRS Judicial and Legislative Retirement Systems to purchase service credits. 401(k) assets which are rolled over to another plan retain the characteristics of a 401(k) plan. • Deemed IRAs – Traditional and Roth IRAs will be available upon receipt of IRS approval.

Note: Current deferrals to another tax deferred plan such as a 403(b) plan could reduce the annual dollar limit under the Authority's 401(k) Plan (but not the Authority's 457 Plan). Effective January 1, 2002 you could contribute up to the annual dollar limit in both the 457 and 401(k) Plans.

* Subject to change every January 1. January 1, 2005 = \$14,000, January 1, 2006 = \$15,000, and indexed thereafter.

** 457 Plan assets rolled to a qualified plan will assume the characteristics of a qualified plan and will, upon withdrawal, be taxed as 401(k) assets, ie.: 457 Plan assets rolled over to a 401(k) Plan will be comingled with the 401(k) Plan assets and taxed as 401(k) assets.

Benefit Events

When are benefits available?

Plan I (457)	Plan II (401(k))
<p>Benefits are available after the occurrence of a benefit event (see below).</p> <ol style="list-style-type: none"> 1) Severance from employment (<i>not working for a participating employer in any capacity</i>) 2) The calendar year you attain age 70 1/2 (regardless of whether you are still working) 3) Death 4) Unforeseeable Financial Emergency* <i>If it cannot be relieved by other means, you may withdraw funds sufficient to cover:</i> <ul style="list-style-type: none"> • Uninsured medical cost to you or your legal dependents** • Uninsured property damage to your primary residence due to casualty or extraordinary and unforeseeable circumstances beyond your control • Unforeseeable loss of family income • Funeral expenses for a family member • Imminent foreclosure of or eviction from your primary residence 5) Minimum account payout is also available for certain accounts to which no contributions have been made within the preceding 24 months. 6) Benefits must begin by April 1 of the calendar year after the later of: the calendar year in which your employment ends, or the calendar year in which you reach age 70 1/2. 	<p>Benefits are available after the occurrence of a benefit event (see below).</p> <ol style="list-style-type: none"> 1) Severance from employment*** (<i>not working for a participating employer in any capacity</i>) 2) Age 59 1/2 (regardless of whether you are still working) 3) Death 4) Hardship withdrawal**** <i>After exhausting all other financial resources, you may withdraw only your cumulative deferrals (excluding any earnings) and your rollover account, if applicable, for:</i> <ul style="list-style-type: none"> • Uninsured medical cost to you or your legal dependents** • Prevention of eviction from or foreclosure on your primary residence • Uninsured property damage to your primary residence due to unforeseeable circumstances beyond your control • Unforeseeable loss of family income • College education for you or a legal dependent** • Purchase of your primary residence 5) Benefits must begin by April 1 of the calendar year after the later of: the calendar year in which your employment ends, or the calendar year in which you reach age 70 1/2. <p><i>Note: Distributions are available from IRAs at any time. Penalties may apply.</i></p>

The Internal Revenue Code provides that neither Plan may be used as a temporary, short-term savings account where you "withdraw deposits" whenever you want. The purpose and benefit of these plans is to ensure that your retirement savings will be available at your retirement.

* You must suspend contributions to the Plan for 6 months after an unforeseeable financial emergency withdrawal.

** Legal dependent is someone you claim as a dependent on your federal income tax return.

*** A 10% federal excise tax may apply unless your payment is paid to you because you separated from service with your employer during or after the year you reached age 55.

**** A 10% penalty tax may apply on hardship distributions. You must also suspend contributions to the plan for 6 months after a hardship withdrawal.

Contact your tax advisor for more information on any payout.

Authority Payout Counselors can provide you with assistance regarding your payout options. Call 800.542.2667 outside of Frankfort or 573.7925 inside of Frankfort. Additional payout information, including forms, is available on the Web at www.kentuckydcp.com.

Payment Options

How are benefits paid?

The payment options available to you may vary depending on the Plan(s) you have chosen. Among the payment options currently available are:

- Total distribution or partial distribution payment.
- Installment payments for a fixed period (such period may be up to your expected lifetime and subject to legal limits).
- Rollover or transfer to another plan or Individual Retirement Account.

You may choose (or change) your method of payment for each Plan at any time. To do so, you must complete a Benefit Payment Election Form. Both Plans provide for an automatic payout process if you do not choose a method of payment.

You will choose a beneficiary (to receive your benefits if you die) at the time you enroll. You may change your beneficiary at any time by completing and having the Authority accept a new Beneficiary Designation Form (BDF), which will supercede any previous BDF.

What are your investment options?

Both Plans offer investment options within the following range of risk/return potential:

Spectrum of Investment Options							
Conservative	Moderately Conservative	Moderate	Moderately Aggressive	Aggressive			
<u>Fixed Income/Cash</u>	<u>Bonds</u>	<u>Balanced</u>	<u>Large Cap Stocks</u>	<u>Mid-Cap Stocks</u>	<u>Small Cap Stocks²</u>	<u>International Stocks³</u>	<u>Specialty Sector Funds⁴</u>
Stable Value Fund Money Market Fund ¹	Short Government Bond Fund Intermediate-Term Government Fund Intermediate Bond Index Fund Intermediate Term Bond Fund High Yield Bond Fund	Moderate Allocation Fund	Large Value Funds Large Blend Funds Large-Cap Index Large Growth Funds	Mid-Cap Value Fund Mid-Cap Index Mid-Cap Growth Funds	Small-Cap Value Small Blend Fund Small-Cap Index Small Growth Fund	World Stock Fund Foreign Stock Funds	Technology Fund
Target Year Life Cycle Funds							
Fidelity Freedom Income Fund		Fidelity Freedom 2010 Fund		Fidelity Freedom 2020		Fidelity Freedom 2030 Fund	

Note: Under any mutual fund option there is no guarantee of principal or return. No assurance can be made that the objective of any mutual fund will be attained, as there is some uncertainty in every such investment. Please consult the prospectus(es) for further details regarding the fund objective(s) and expense(s). Please read prospectus(es) carefully before investing any money. Furthermore, no guarantees or representations are made by the State, the Authority, Plan representatives or your employer regarding any of the investment options available under the Plan.

You may allocate your deferrals among any of the specific investment options currently made available through the Plan(s).

You may change your allocation for future deferrals or exchange existing balances between options daily provided the transactions are completed before 4 p.m. ET. Your quarterly statement provides account totals, your transaction activity and your selected investment option values.

¹ An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the money market fund.

² Small company funds involve increased risk and volatility.

³ International investing involves additional risks including: political instability, currency fluctuations, differences in accounting standards, and foreign regulations.

⁴ Sector funds focus their investments on companies involved in one specific sector, the funds may involve a greater degree of risk than an investment with greater diversification.

Find out more about your investment options.

Your Deferred Compensation Representative is authorized to provide you with more information regarding specific investment options. Along with this Plan Summary - Highlights brochure, you will receive a Spectrum of Investment Options.

Upon request, you will receive all applicable prospectus(es) containing other important information including the mutual funds' objectives and operating expenses, which are in addition to the Plan(s) fees. To obtain a prospectus(es) call 800.542.2667. Please read carefully before investing.

To help defray the cost of administering the Plans, participant account(s) are subject to an asset fee.

Asset fees

For the Fixed Contract Fund accounts, there is an annual recordkeeping and administrative fee. This annual fee is .35 percent on the total balance in the Fixed Contract Fund.

For the mutual funds accounts, there is an annual recordkeeping and administrative fee, based on the first \$250,000 of your total balance in all mutual funds. This fee is calculated as follows:

- .35 percent on the first \$25,000
- .30 percent on up to the next \$25,000
- .20 percent on up to the next \$50,000
- .10 percent on up to the next \$150,000.

**Currently, during the first year
of participation, your account is FREE
of this Authority mutual fund account fee.***

The SAVER Line -- 800.793.4401 is always available to you for account information and to change your investments if your objectives change. Or, you can visit our interactive Web site at www.kentuckydcp.com.

What is the Kentucky Deferred Compensation Authority?

The Kentucky Public Employees' Deferred Compensation Authority is authorized under Kentucky Revised Statutes (18A.230 – 18A.275) to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

Plan administration is performed by the Authority, under the direction of the Authority Board of Trustees.

The investment options available under the Plan(s) are selected by the Authority under the direction of the Board of Trustees and with the assistance of an investment consultant(s).

Plan communication and enrollment services are performed by Nationwide Retirement Solutions, Inc. and Nationwide Investment Services Corporation, its affiliated NASD registered broker/dealer. A Nationwide Retirement Solutions Representative may be contacted at 502.573.7925 or 800.542.2667 if you should have any questions.

Plan Service Representatives are authorized and licensed to explain the Deferred Compensation Plans and the available investment options. However, they are not permitted to provide investment advice. To contact your Plan Service Representative call (toll free) 800.793.4401 and leave a message for your Representative. If you need tax or investment advice you should consult a tax or financial advisor.

The tax information in this brochure is only for illustrative purposes. You should consult a tax advisor to see how participation in the Authority Plan(s) would affect your personal tax situation.

**Asset fees apply from first day of investment on IRA accounts.*



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The Kentucky Public Employees' Deferred Compensation Authority Board of Trustees*

Ex Officio Members:

(vacant)

Finance & Administration Cabinet

(vacant)

Personnel Cabinet

Ed Ross, State Controller

Finance & Administration Cabinet

(Board Chairman)

At Large Appointments – Terms Expire January 16, 2007:

Eugene S. Binion, Superintendent

Elliott County Board of Education, Sandy Hook, Kentucky

William E. Feltner, Senior Vice President

First National Bank of Lexington

Monika M. Hubbard, Southeast Sales Consultant

Epic Advisors

(Board Vice Chairman)

W. Richard Jones, Senior Vice President

PNC Bank

*Listed members accurate as of date printed. Trustees subject to change.

This Plan Summary - Highlights is only a summary of Plan provisions, which are subject to change. Every effort has been made to accurately state Plan provisions in this Summary. However, should there be an error, misstatement or omission in this material, the Plan documents will always prevail.

For a complete description of Plan rules, consult the current Plan document.

A current Plan document is available from the Authority.

Securities offered through Nationwide Investment Securities Corporation, member NASD.

NRS-1029-0104